

## MEMORANDUM

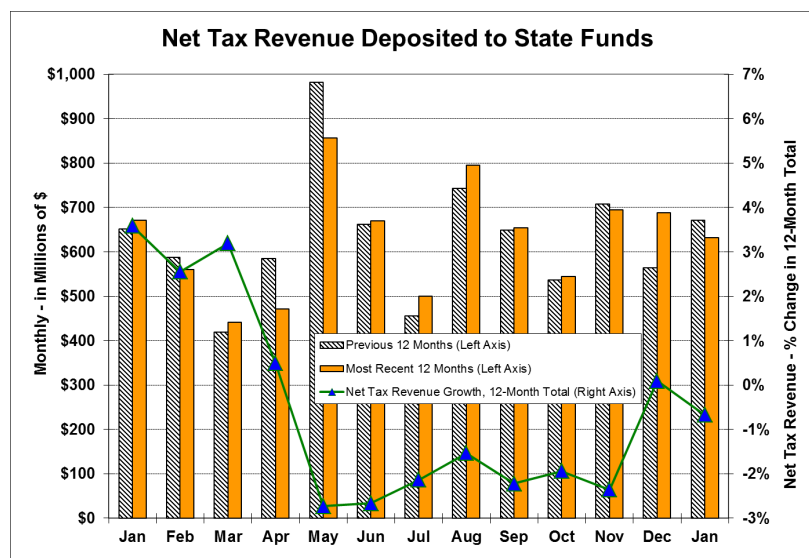
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: February 20, 2015

### Twelve-Month Total Net Tax Receipts Through January 31, 2015

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 2015 with comparisons to the previous 12 months. January 2014 to January 2015 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

With the January decline, growth in the 12-month State tax total returned again to negative territory. The month of January ended on a weekend in 2015 and that contributed significantly to the month's revenue weakness. The January deposit issue will work to boost February revenue and the annual growth amount should turn positive again at the end of that month. From a larger perspective, income tax withholding deposits and sales/use tax remain strong, corporate tax and gambling tax are mildly negative, and bank franchise tax, and cigarette/tobacco tax receipts are showing weakness in the annual total.

## Month of January 2015

January net tax receipts totaled \$632.1 million, a decrease of \$38.7 million (- 5.8%) compared to January 2014. January 2015 net receipts for several categories of State taxes were negatively impacted by January 31 falling on a weekend this year. While months ending on a weekend do not always cause significant revenue comparison issues, January 31 is a significant tax deposit date so revenue that would normally be deposited on that date necessarily arrives in February. Fuel tax and sales/use tax were significantly impacted by the issue this year. In addition, individual income tax estimate payments were deposited earlier this year, providing a boost to December while disadvantaging January.

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2015, net revenue from all taxes deposited to State funds totaled \$7.507 billion, a decrease of \$50.9 million (- 0.7%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

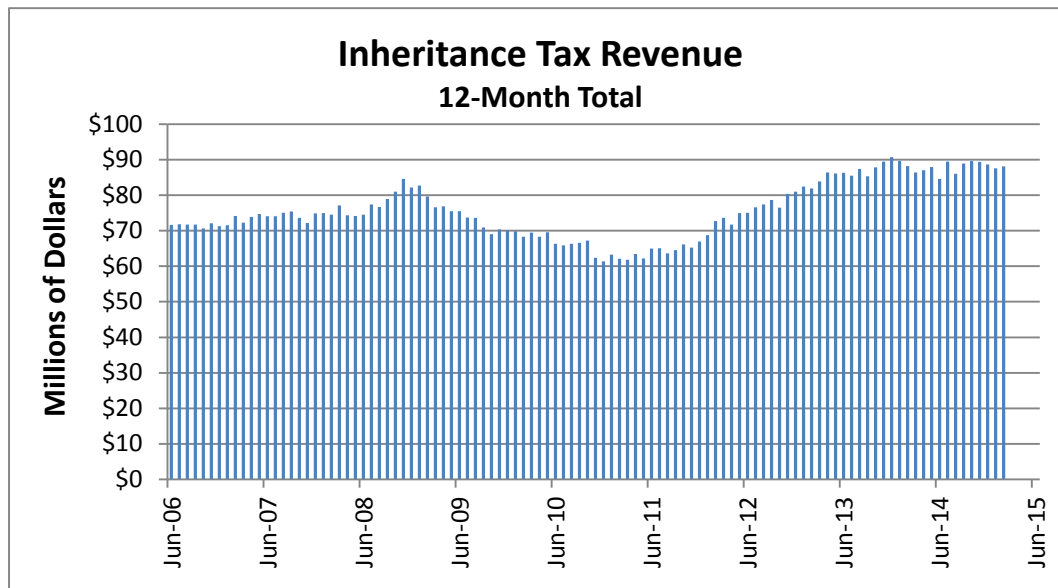
- Individual Income Tax (negative \$145.8 million, - 4.3%) – Due to an increase in the Iowa Earned Income Tax Credit, the new Iowa Taxpayer Trust Fund Tax Credit, and the FY 2013 one-time boost to revenue that was the result of federal tax changes enacted January 1, 2013, the annual rate of income tax revenue growth declined significantly during the first half of calendar year 2014. While growth recovered during the second half of 2014, annual growth for individual income tax will likely remain negative until all tax returns are processed (mid-May 2015).
- Sales/Use Tax (positive \$114.0 million, 4.7%) – Sales/use tax growth continues to be strong.
- Bank Tax (negative \$3.3 million, - 9.4%) – The use of income tax credits may explain the weakness in bank (franchise) tax receipts. Banks utilize income tax credits and often those credits are purchased from other taxpayers with insufficient tax liability to use the credits themselves.
- Fuel Tax (positive \$5.40 million, 1.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.6% and taxable diesel sales increased 3.3%. The annual total for all taxable gasoline/ethanol/diesel fuel gallons sold in Iowa is currently 0.03% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$4.8 million, - 1.6%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending January 2015. The combined AGR change for the 18 facilities was negative 0.7% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.406 billion. The annual AGR total has declined over the past two years and is 4.3% below the December 2012 peak.
- Real Estate Transfer Tax (positive \$0.1 million, 0.5%)
- Cigarette and Tobacco Tax (negative \$10.4 million, - 4.6%)

## Tax Spotlight – Inheritance Tax

The inheritance tax is imposed under the authority of [Iowa Code chapter 450](#). Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax, the estate must exceed \$25,000 in value. Spouses were exempted fully from the inheritance tax with the passage of SF 356 (Department

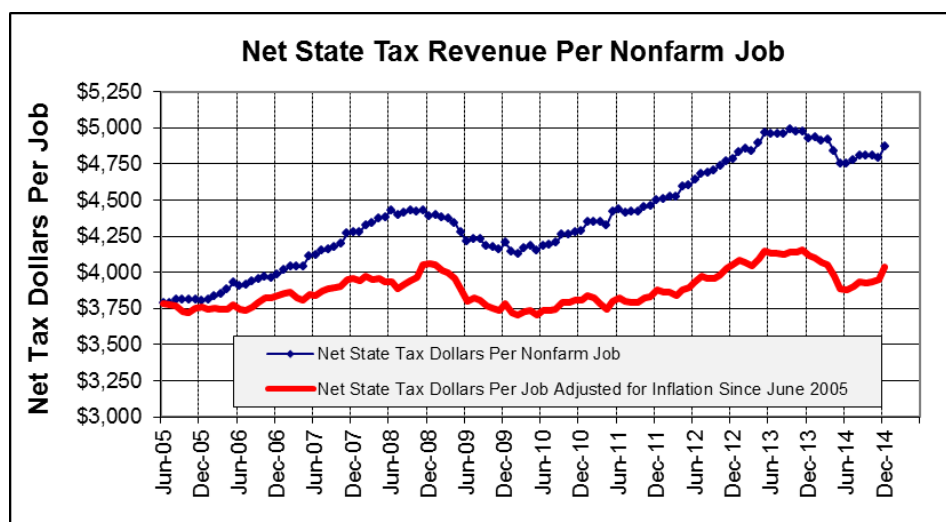
of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The qualified use inheritance tax is imposed under the authority of [Iowa Code chapter 450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a nonrelative prior to the 10 years, the heir may be required to pay inheritance tax.

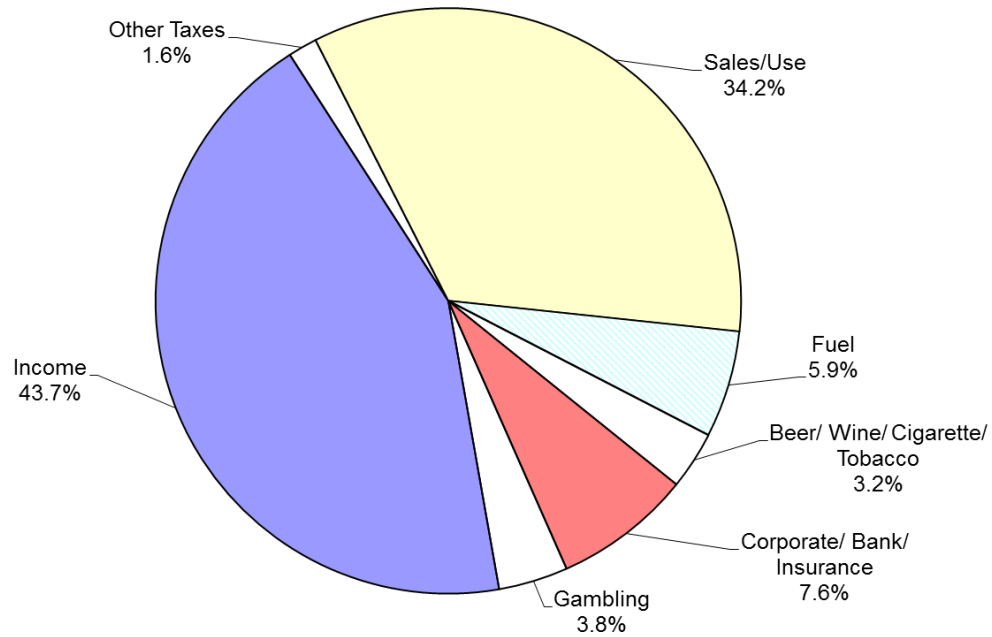


## Tax Revenue and Employment

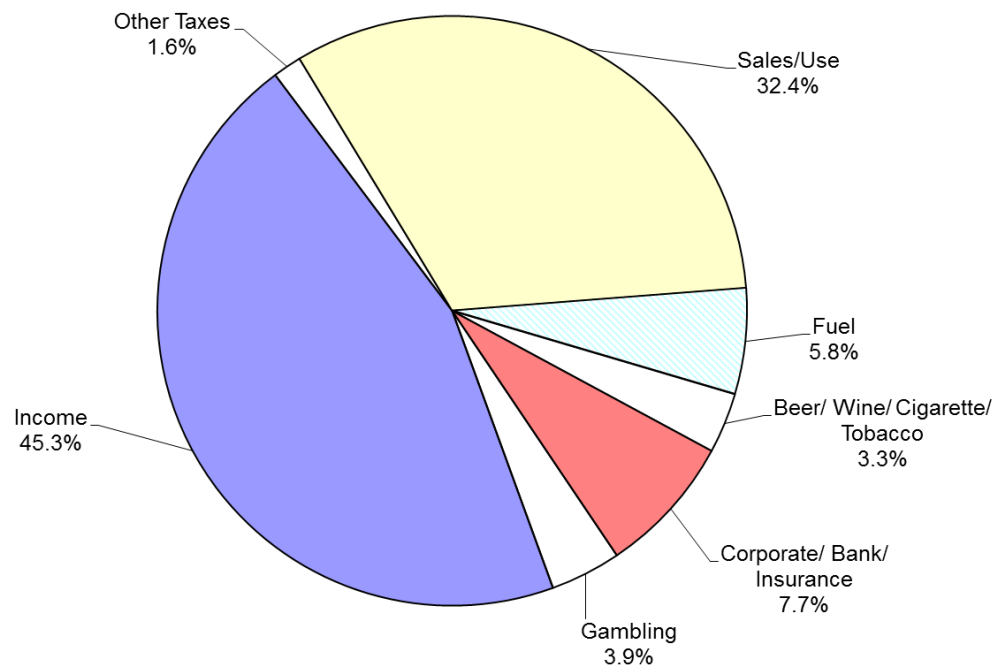
The average reading for Iowa nonfarm employment over the 12 months ending December 2014 is 1,549,700 and net State tax receipts over the same 12 months totaled \$7.545 billion, or \$4,869 per nonfarm job. This is \$1,084 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$248 since June 2005 and the remainder of the \$1,084 increase (\$836) represents the impact of inflation.



**Net State Tax Revenue - Twelve Months Ending January 2015**  
**Net Revenue = \$7.507 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue - Twelve Months Ending January 2014**  
**Net Revenue = \$7.558 Billion**  
Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2014	Month of January 2015	January \$ Change	January % Change
Banking	\$ 35.1	\$ 31.8	\$ - 3.3	-9.4%	\$ 3.4	\$ 2.8	\$ - 0.6	-17.6%
Beer & Wine	21.9	22.1	0.2	0.9%	2.0	2.2	0.2	10.0%
Cigarette & Tobacco	228.5	218.1	- 10.4	-4.6%	18.3	15.1	- 3.2	-17.5%
Corporate Income	439.8	429.7	- 10.1	-2.3%	39.7	31.4	- 8.3	-20.9%
Fuel	438.1	443.5	5.4	1.2%	41.2	28.0	- 13.2	-32.0%
Gambling	293.1	288.3	- 4.8	-1.6%	27.0	27.1	0.1	0.4%
Individual Income	3,424.3	3,278.5	- 145.8	-4.3%	372.9	366.3	- 6.6	-1.8%
Inheritance	88.2	88.1	- 0.1	-0.1%	5.8	6.3	0.5	8.6%
Insurance	106.2	109.0	2.8	2.6%	0.0	0.2	0.2	--
Other Taxes	13.1	14.2	1.1	8.4%	- 0.1	1.2	1.3	--
Real Estate Transfer	18.4	18.5	0.1	0.5%	2.0	2.0	0.0	0.0%
Sales/Use	2,451.3	2,565.3	114.0	4.7%	158.6	149.5	- 9.1	-5.7%
<b>Total Net Taxes</b>	<b>\$ 7,558.0</b>	<b>\$ 7,507.1</b>	<b>\$ - 50.9</b>	<b>-0.7%</b>	<b>\$ 670.8</b>	<b>\$ 632.1</b>	<b>\$ - 38.7</b>	<b>-5.8%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 8,911.0	\$ 8,955.4	\$ 44.4	0.5%	\$ 722.7	\$ 681.2	\$ - 41.5	-5.7%
Tax Refunds	\$ - 1,353.0	\$ - 1,448.4	\$ - 95.4	7.1%	\$ - 52.0	\$ - 49.0	\$ 3.0	-5.8%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,331.5	\$ 6,176.1	\$ - 155.4	-2.5%	\$ 557.0	\$ 529.6	\$ - 27.4	-4.9%
Road Use Tax Fund	\$ 776.5	\$ 794.1	\$ 17.6	2.3%	\$ 66.9	\$ 57.4	\$ - 9.5	-14.2%
Non-GF Gambling	\$ 290.8	\$ 286.6	\$ - 4.2	-1.4%	\$ 26.9	\$ 27.0	\$ 0.1	0.4%
Other State Funds	\$ 159.1	\$ 250.2	\$ 91.1	57.3%	\$ 20.0	\$ 18.2	\$ - 1.8	-9.0%
<b>Local Option Taxes *</b>	<b>\$ 903.3</b>	<b>\$ 916.3</b>	<b>\$ 13.0</b>	<b>1.4%</b>	<b>\$ 61.6</b>	<b>\$ 62.3</b>	<b>\$ 0.7</b>	<b>1.1%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of the State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited to a new Sales Tax Increment Fund and used for local flood mitigation projects.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

**Report Database:** The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.